

HERSHEY'S



ANNUAL REPORT
DECEMBER 31, 1957

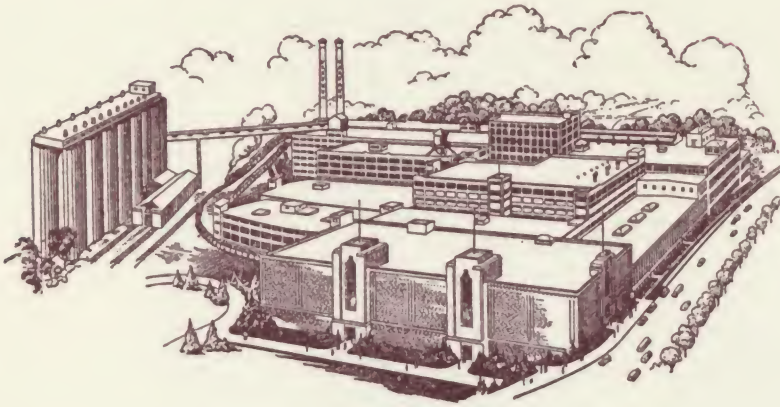


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HERSHEY

CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

BOARD OF DIRECTORS

J. J. GALLAGHER, *Chairman*

W. H. RADEBAUGH

S. F. HINKLE

W. E. SCHILLER

L. W. MAJER

J. B. SOLLENBERGER

D. PAUL WITMER

OFFICERS

J. J. GALLAGHER, *Chairman of Board of Directors*

S. F. HINKLE, *President*

L. W. MAJER, *Vice President and Secretary*

W. E. SCHILLER, *Vice President and Treasurer*

E. B. LEHMAN, *Comptroller*

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY
NEW YORK

REGISTRAR

GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

To the Stockholders:

We are pleased to present this annual report of your Company for the year 1957 and to comment on some of the developments which we believe to be of particular interest to you.

Sales of \$157,834,823 in 1957 were \$9,156,885, or 6.2%, higher than those in 1956, the improvement being due principally to an increase in unit sales. "Hershey-ets" and "Instant Cocoa Mix", the new items we recently introduced and which were mentioned in previous reports, are gaining in popularity and contributed to the over-all improvement in 1957.

Net earnings in 1957 amounted to \$14,909,809 as compared with \$12,873,010 in the preceding year. This is equivalent to \$6.03 and \$5.17 a share of Common Stock in the respective years, after deducting dividends on Preferred Stock. Dividends paid on Common Stock totaled \$3.10 a share in 1957 and \$3.00 in 1956. The regular quarterly dividend was increased in the fourth quarter of 1957 from \$.50 to \$.60 a share and an extra dividend of \$1.00 a share was paid in both 1957 and 1956. The regular dividends of \$2.12½ a share were paid on the Preferred Stock in each year.

As mentioned in earlier reports, our major problem for some years has been the procurement of our requirements of cocoa beans under the difficult conditions of widely fluctuating market prices. During 1956 and the first quarter of 1957, the price of this commodity was at a level which enabled the industry to compete effectively with non-chocolate products and substitutes for chocolate. In April 1957, the market price of cocoa beans started to advance and the rate accelerated when preliminary estimates of the 1957-1958 crop reflected prospects of a reduced harvest in West Africa. The actual outturn of the crop proved to be considerably lower than these estimates because of adverse weather conditions. This turn of events caused still sharper price rises, and at the present time the market price is approximately double that of one year ago. From past experience it appears certain that these high prices will encourage the use of substitutes and imitations and the purchase of other competitive products to the point where a marked drop in the world consumption of cocoa beans will be noted.

It is not practicable to forecast at this time the trend of earnings for 1958, especially because of the uncertainty as to the cost of cocoa beans. Under the competitive conditions of our industry it may not be possible to make adjustments in prices or sizes of our finished products to offset all the prospective additional cost.

Working capital at the close of 1957 amounted to \$61,003,966, or \$5,295,308 more than at the close of 1956. Approximately 55% of the

current assets consisted of inventories of raw materials, partly processed materials, and finished goods ready for sale. It is necessary to maintain sizable inventories, as well as purchase commitments, to assure adequate supplies for operating needs.

The Company owned \$27,671,489 of U. S. Government and other short-term securities at December 31, 1957, and \$12,588,134 of the U. S. Government securities have been applied in the accompanying balance sheet against the liability for Federal income tax. A substantial part of the remainder will be converted into cash during the course of the year to meet the normal seasonal operating requirements.

The program of research and development is being aggressively followed with the objective of broadening our lines through the development of new items and maintaining and improving the quality of all our products.

During 1957 the Company purchased 22,795 shares of its Preferred Stock at a cost of \$1,094,598. These shares were held in the treasury at the end of the year and since then 5,040 shares have been applied to meet the 1958 sinking fund requirements. The remaining shares are held for future sinking fund needs. Expenditures of approximately \$2,000,000 were made in 1957 for additions and improvements to the plant and, under the present construction program, additional expenditures totaling about \$5,000,000 are indicated for the next two or three years.

The "Chocolate Avenue" and "Cocoa Avenue" street sign pictured on the cover of this report marks the center of Hershey, where the Company's chocolate plant is located. This community is a major center of interest for tourists, and people in increasing numbers from many parts of the world come to see us every year. The guided tour of the chocolate plant is the highlight of these visits.

In conclusion, we wish to express our appreciation to the officers and employees for their loyal cooperation and earnest effort. There is no doubt that these vital and essential attributes helped to make 1957 a successful year.

By order of the Board of Directors,

J. J. GALLAGHER

Chairman of the Board

S. F. HINKLE

President

February 18, 1958.

AUDITORS' CERTIFICATE

*To the Board of Directors and the Stockholders of
Hershey Chocolate Corporation:*

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1957, and the related statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation as of December 31, 1957, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
February 6, 1958.

HERSHEY CHOCOL

BALANCE SHEET -

ASSETS

CURRENT ASSETS:

Cash	\$ 9,383,584
U. S. Government and other short-term securities, at cost	15,083,355
Accounts receivable, less reserves of \$463,641	5,590,917
Inventories (Note 1)	37,927,335
Total current assets	<u>\$67,985,191</u>

PLANT AND PROPERTY, at cost:

Land	\$ 96,085	
Buildings and improvements	13,931,185	
Machinery and equipment.....	24,755,691	
Construction in progress	<u>79,348</u>	
	\$38,862,309	
Less—Reserves for depreciation.....	<u>21,764,076</u>	17,098,233
DEFERRED AND PREPAID ITEMS.....		<u>189,585</u>
		<u>\$85,273,009</u>

Reference is made to the accom

TE CORPORATION

DECEMBER 31, 1957

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 5,592,855	
Dividend payable February 14, 1958, on Series A preferred stock.....		103,852
Reserve for state taxes.....		1,284,518
Reserve for Federal income tax	\$12,588,134	
Less — U. S. Government short-term securities	<u>12,588,134</u>	<u>—</u>
Total current liabilities		\$ 6,981,225

RESERVE FOR PAST SERVICE COST

OF PENSIONS	450,000
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CAPITAL STOCK AND SURPLUS:

Series A 4-¼% cumulative preferred stock, par value \$50 per share (Note 2)— Authorized 218,283 shares; out- standing 218,182 shares (including 22,795 shares in treasury)	\$10,909,100	
Common stock, without par value— Authorized 3,000,000 shares (Note 3); outstanding 2,399,251 shares	4,200,716	
Earned surplus	<u>63,826,566</u>	
	\$78,936,382	
Deduct - Treasury stock, 22,795 shares Series A preferred, at cost	<u>1,094,598</u>	<u>77,841,784</u>
		<u>\$85,273,009</u>

ying notes to financial statements.

HERSHEY CHOCOLATE CORPORATION
STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1957

PROFIT AND LOSS

GROSS SALES, less discounts, returns and allowances		\$157,834,823
COST OF GOODS SOLD, SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (Note 4)		<u>125,475,014</u>
		\$ 32,359,809
PROVISION FOR INCOME TAXES:		
Federal income tax	\$16,250,000	
Commonwealth of Pennsylvania income tax	<u>1,200,000</u>	<u>17,450,000</u>
Net profit for the year		<u>\$ 14,909,809</u>

EARNED SURPLUS

EARNED SURPLUS AT DECEMBER 31, 1956		\$ 56,785,945
ADD -- Net profit for the year 1957		<u>14,909,809</u>
		\$ 71,695,754
DEDUCT -- Dividends:		
On Series A 4-¼% preferred stock (\$2.12½ per share)	\$ 431,510	
On Common stock (\$3.10 per share)	<u>7,437,678</u>	<u>7,869,188</u>
EARNED SURPLUS AT DECEMBER 31, 1957		<u>\$ 63,826,566</u>

Reference is made to the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

- (1) Inventories of cocoa beans and almonds, together with the cocoa beans, almonds and the wage costs included in finished goods and goods in process, are stated at cost under the "last-in, first-out" method. The remaining inventories are stated at the lower of average cost or market.
- (2) The preferred stock is redeemable by the Corporation. During 1958 the optional redemption price is \$51.50 per share and the sinking fund redemption price is \$50.50 per share. Upon voluntary liquidation such preferred stock is entitled to a preferential amount equal to its then applicable optional redemption price and, upon involuntary liquidation, to \$50.00 per share. Such prices and amounts are plus accrued dividends. Dividends on, or purchases of, common stock are (with certain exceptions) conditioned upon compliance with sinking fund provisions requiring the Corporation to have purchased or redeemed, and applied to sinking fund purposes, a cumulative average of 5,075 shares of the preferred stock per annum. The Corporation has applied a sufficient number of shares to meet such sinking fund requirements through 1958.
- (3) In 1957 the stockholders approved a stock option plan which provides for granting officers and key employees options to purchase a maximum of 100,000 shares of common stock of the Corporation at 100% of the market price at the granting dates, and reserved 100,000 shares of the authorized but unissued common stock for such options. The Corporation has granted, pursuant to this plan, options to purchase within a ten-year period 29,650 shares at \$54.00 a share and 1,625 shares at prices ranging from \$55.00 to \$59.06.
- (4) Costs and expenses for the year 1957 include provision for depreciation of plant and equipment in the amount of \$1,315,612.

HERSHEY CHOCOLATE CORPORATION

EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA

WAREHOUSES

Atlanta, Ga.	Little Rock, Ark.
Billings, Mont.	Los Angeles, Cal.
Cambridge, Mass.	Memphis, Tenn.
Chicago, Ill.	Milwaukee, Wis.
Cincinnati, Ohio	New Orleans, La.
Dallas, Texas	New York, N. Y.
Davenport, Iowa	Oklahoma City, Okla.
Denver, Colo.	Omaha, Neb.
Detroit, Mich.	Pittsburgh, Pa.
East St. Louis, Ill.	Portland, Ore.
Houston, Texas	St. Paul, Minn.
Jacksonville, Fla.	Salt Lake City, Utah
Kansas City, Mo.	San Francisco, Cal.
	Seattle, Wash.

SALES OFFICES

In all principal cities in the United States

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS

MILK CHOCOLATE KISSES

ALMOND BARS

BAKING CHOCOLATE

SEMI-SWEET BARS

DAINTIES

KRACKEL BARS

BREAKFAST COCOA

MR. GOODBAR

CHOCOLATE SYRUP

MINIATURE BARS

INSTANT COCOA MIX

HERSHEY-ETS

HOT CHOCOLATE POWDER

CHOCOLATE FUDGE TOPPING

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS

COCOA POWDER

UNSWEETENED CHOCOLATE

CHOCOLATE SYRUP

COCOA BUTTER

CHOCOLATE FUDGE





